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C O N F I D E N T I A L KUWAIT 002235

SIPDIS

STATE FOR NEA AND EB
STATE PASS TO USTR FOR DOUG BELL

E.O. 12958: DECL: 05/19/2013

TAGS: [ETRD](#) [ECON](#) [EINV](#) [KU](#)

SUBJECT: MIDDLE EAST TRADE INITIATIVE

REF: STATE 135263

Classified By: Ambassador Richard Jones for reasons 1.5 (B) and (D).

1.(C) Embassy Kuwait will work enthusiastically to advance the President's new Middle East Trade Initiative as outlined in reftel. We noted two particular themes in the message: a) countries will need to do some heavy lifting to benefit from the initiative; and b) the Administration understands the initiative is a long-term commitment, which will take years to fully achieve.

2.(C) Kuwaiti businessmen, who have long lamented the government's dominance of the local economy, often echo the complaints of GOK technocrats charged with developing and implementing economic reforms. We see Kuwait as a country fully aware of its need for reform, fully aware of the kinds of reforms needed, and fully capable of making the needed reforms. The challenge here has been, and continues to be, an unfortunate lack of political leadership; a lack of a vision for the transformation of the Kuwaiti economy. While the new Middle East Trade Initiative will likely receive a warm welcome from Kuwaiti leaders, it will take sustained prodding to overcome the current inertia in GOK policy making. Characteristically, Embassy has received no/no inquiries from GOK interlocutors about the initiative since the President's May 9 announcement.

What's Attractive/What's Problematic

3.(C) Kuwait will find the idea of closer ties to the U.S. attractive, given concerns that their special relationship with the U.S. will fade as Iraq grows in importance. Further, the GOK has long been anxious to conclude a Bilateral Investment Treaty with the U.S. (their main motive, however, is preferential tax treatment for their financial investments in the U.S., and they have thus far been unwilling to relax restrictions on FDI into Kuwait). The GOK will also welcome the offer of technical assistance to build trade capabilities, particularly on WTO issues.

4.(C) Predictably, the suggestion of including Israel in the FTA will be a significant hurdle for Kuwait. However, full settlement of Israeli-Palestinian issues would help overcome this. The GOK will likely have few other reservations about the Initiative.

How Will Kuwait Participate

5.(C) If past experience is a guide, we believe the GOK will support the concept of the Initiative and applaud its introduction. Mid- and senior-level officials and many Kuwaiti businessmen will welcome U.S. pressure on the GOK to finally implement deep and broad reforms, and urge us to do even more. However, unless the senior leadership of Kuwait embraces the initiative and gives it vocal support, Ministers will take only half-steps, while looking over their shoulders at a congenitally hostile National Assembly ready to punish any misstep.

Comment

6.(C) The GOK has preached reform since before Iraq's invasion of the country, but frustratingly little has been done since then. This argues for even greater U.S. pressure on Kuwait than on other states in the region to reform and to do it quickly. This initiative, with its long-term approach and an expectation for countries to really do something to take advantage of it, might actually bear some fruit provided we spend enough time in the garden.

JONES